Canada. Canadian Oil Markets
and Emergency Planning Division

The Year in Review

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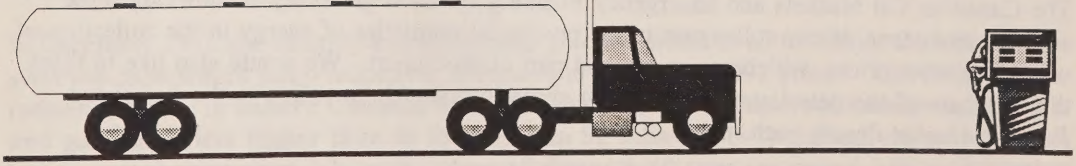
Canada

1993

THE YEAR

IN REVIEW



Canadian Oil Markets and Emergency Planning Division
Oil and Gas Branch

Disponible en français

The *1993 Year in Review* is prepared in the Petroleum Products Section of the Canadian Oil Markets and Emergency Planning Division of Natural Resources Canada.

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1993

THE YEAR IN REVIEW

INTRODUCTION

Stability continued in the petroleum product markets from 1992 to the end of the third quarter of 1993. The fourth quarter, however, demonstrated a break in the trend, registering significant downward price movements. Product demand was weak, with a marginal improvement over last year. Refiner-marketers maintained their rationalization strategies in the face of subdued growth in sales and declining profitability.

The *1993 Year In Review* examines product price trends during 1993 for motor gasoline, diesel oil, furnace fuel oil and automotive propane, including a comparative analysis with 1992 prices at year-end. The report also looks at the pump price components, such as crude costs and taxes. Widening price differentials between the various grades of gasoline are examined, and Canadian gasoline prices and tax levels are compared to those in the U.S..

This report also reviews other aspects of petroleum product markets in 1993, including product demand, retail outlets, market shares and refinery capacity.

A statistical summary for 1993 is appended. This appendix includes the 1993 time-series for the data which appear regularly in the monthly *Petroleum Product Market Report.*

I PRODUCT PRICES

Price Trends

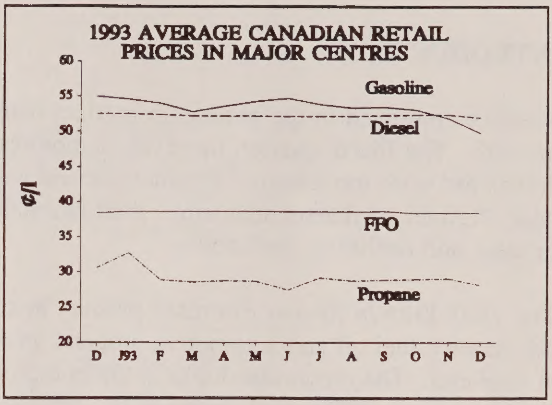
Petroleum product prices were generally stable through 1993, with most of the price movement occurring in the fourth quarter. Regular gasoline prices began to drop in November and by December, at 49.8 ¢/l, were at their lowest level since 1989. Diesel prices followed a similar pattern, although to a lesser degree, while December 1993 furnace fuel oil (FFO) prices were unchanged from a year earlier. On an ex-tax basis, regular gasoline prices were the lowest among the four products surveyed. (Figure 2)

In December 1993, the monthly average regular gasoline prices in all ten major Canadian cities surveyed experienced sharp reductions compared to December 1992 prices. **The largest price reductions were in eastern Canada, where the markets have been traditionally more stable and gasoline prices higher than in the west.** In St. John's, Newfoundland, the price decline had been underway since July with a drop of almost 8 ¢/l over the period July to December 1993. Charlottetown, the only regulated market, experienced a price drop during December. At

54.5 ¢/l, the average December 1993 price for regular gasoline in Charlottetown was 5.6 ¢/l lower than the December 1992 price.

During the last half of 1993, regular gasoline prices in Halifax fell 5.4 ¢/l, and in November, despite a tax increase that came into effect in October, the price was 47.2 ¢/l, the lowest price observed in eastern Canada since 1987. In July 1991, the Government of Nova Scotia removed all petroleum product price controls and eliminated barriers to entry into gasoline and diesel fuel retailing, leaving the way open to the introduction of self-serve stations. The falling prices which have been observed during the past year in Nova Scotia are a direct result of increased competition in the marketplace.

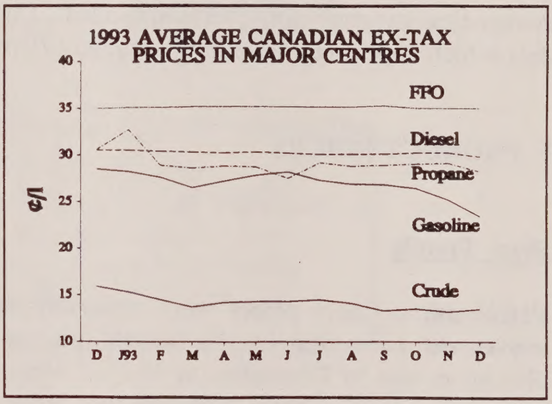
Figure 1



Of all major cities surveyed across Canada, Montréal recorded the largest price drop (7.3 ¢/l) during the December 1992 to December 1993 period.

In 1993, diesel prices remained lower than gasoline prices throughout the year until December, when the gasoline price dipped. The average monthly diesel price was 0.6 ¢/l lower in December 1993 compared to December 1992. At year-end, the Atlantic provinces recorded reduced diesel prices, pushing the Canadian monthly average down to 52 ¢/l in December, the closest it has come to the pre-Gulf war price of 51 ¢/l in 1990.

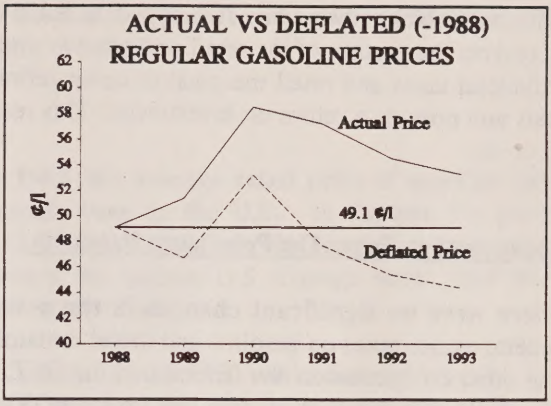
Figure 2



Average Canadian FFO prices remained unchanged at 38.4 ¢/l in December 1993 compared to December 1992. St. John's, Newfoundland, experienced a significant price reduction (4.3 ¢/l) in December 1993 over December 1992. This was countered mostly by price increases in Toronto and Winnipeg during the last quarter of the year. Halifax recorded the lowest FFO price in the country, 35.7 ¢/l, in December 1993.

Propane prices rose sharply in January 1993 to 32.7 ¢/l, from the 1992 December price of 30.6 ¢/l. Price volatility in propane is to be expected due to its seasonal demand. Tight supply, brought about by the late crop drying season in the U.S. mid-west in the fall of 1992, increased propane market pressures. As a result, many of the western markets experienced high propane

Figure 3



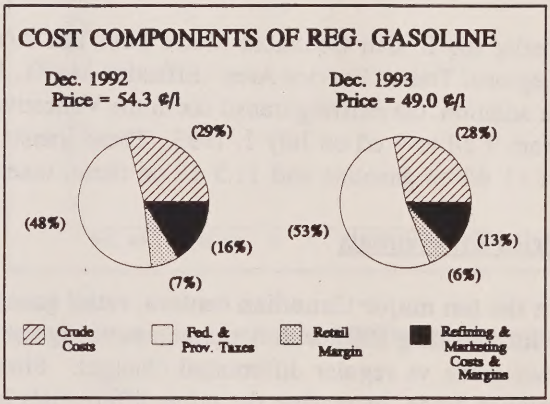
prices in January. Propane prices were lowest in June, averaging 27.5 ¢/l. The year ended with a lower propane price (28.2 ¢/l) than in December 1992, largely due to a significant decline, December to December, in Charlottetown and Vancouver.

Whereas the rate of price increase of all consumer goods was 20% between 1988 and 1993, regular gasoline prices increased by only 8.5% over the period.

Figure 3 illustrates actual regular gasoline prices over the last five years versus prices deflated to 1988 dollars. Except in 1990, when prices peaked as a result of the Gulf war, deflated prices of regular gasoline have been consistently lower than the average 1988 price for regular gasoline, 49.1 ¢/l. **Once corrected for inflation, the average retail price of gasoline was 4.7 ¢/l lower in 1993 than what it was in 1988.** The deflated ex-tax price in 1993 is 22.3 ¢/l, 7 ¢/l lower than the 1988 price.

Cost Components

Figure 4



The average Canadian crude cost component dropped steeply, from 15.3 ¢/l in January to 13.5 ¢/l in December. The largest price decrease, 1.6 ¢/l, occurred during the first three months of the year, followed by a period of stability until August. An abrupt price drop, from 14.1 ¢/l in August to 13.3 ¢/l in September, lowered the crude cost component for the rest of the year. The monthly average crude cost was 13.5 ¢/l in December 1993, 2.4 ¢/l lower than the 1992 December average. Crude costs accounted for 28% of the average retail price in 1993, while in 1992 it was 29%.

Federal and provincial taxes together accounted for 53% of the retail price in December 1993, up 5% from last December. **Since the increase in the provincial tax component compensated for the decrease in the federal tax component, the higher proportion of tax to retail price is mainly due to the low retail price in December 1993.**

Retail margins were relatively stable during the year, fluctuating between 3.1 ¢/l and 3.6 ¢/l. The residual component, refining and marketing costs and margins, also showed very little change in

1993, until November when it dropped to 8.1 ¢/l from 11.2 ¢/l in October. This component represents the portion of the retail price that is available (after deducting crude costs, federal and provincial taxes and retail margins) to cover refining, marketing, transportation and distribution costs and provide a return on investment. This residual revenue may not be sufficient to recover all costs.

Consumption Taxes On Petroleum Products

There were no significant changes in the petroleum product consumption taxes in 1993. Federal excise taxes on gasoline and diesel remained unchanged at 8.5 ¢/l and 4 ¢/l, respectively. The other component of the federal tax, the GST, is based on 7% of the retail price. Reflecting the retail price decrease in 1993, the average GST on regular gasoline was 3.1 ¢/l by December, 0.3 ¢/l lower than in December 1992.

The average month-end provincial tax on regular gasoline increased to 14.4 ¢/l in December 1993, from 14.0 ¢/l a year earlier. The bulk of the increase was registered in the last two quarters of 1993. For diesel, the average month-end provincial tax increased by 0.5 ¢/l to 14.0 ¢/l in December 1993 over the same month last year. Provincial tax increases in Nova Scotia, Saskatchewan and British Columbia account for the higher provincial tax for diesel this year. Saskatchewan, Nova Scotia and Prince Edward Island increased their tax on automotive propane in 1993, causing the average month-end provincial tax in December 1993 to increase to 4.6 ¢/l, from 4.5 ¢/l, a year earlier.

Under the British Columbia Motor Fuel Tax Act, the transit tax was extended to the Victoria Regional Transit Service Area. Effective May 1, 1993, it was 1.5 ¢/l on both gasoline and diesel. In addition, the existing transit tax in the Vancouver Regional Transit Service Area was increased from 3 ¢/l to 4 ¢/l on July 1, 1993. These transit tax rates are in addition to the provincial taxes of 11 ¢/l on gasoline and 11.5 ¢/l on diesel taxes currently levied in British Columbia.

Price Differentials

In the ten major Canadian centres, retail gasoline price differentials generally continued to widen during 1993 with the premium vs regular gasoline price spread increasing more than the mid-grade vs regular differential changes. Since most of the competition takes place on the regular grade, increasing the price differentials between regular gasoline and the higher grades is one strategy used by gasoline retailers to maximize their overall revenue.

The end-December 1993 premium vs regular gasoline price differentials ranged from 4.3 ¢/l in Charlottetown, the only market where prices are regulated, to 9.3 ¢/l in Montréal. Differentials in the remaining 8 markets were between 7.1 ¢/l and 8.8 ¢/l. In 1992, Charlottetown again registered the lowest differential, 2.4 ¢/l, while Montréal and Toronto had the highest at 8.0 ¢/l. The range among the other cities at end-December 1992 was narrower, 6.4 ¢/l and 7.5 ¢/l. In eastern Canada, differentials widened by 1.3 ¢/l to 1.9 ¢/l, compared to increases of 0.4 to 1.1 ¢/l

recorded in western Canada. The largest year-over-year increase was recorded in Charlottetown (+1.9 ¢/l) and the smallest increase was in Regina (+0.4 ¢/l).

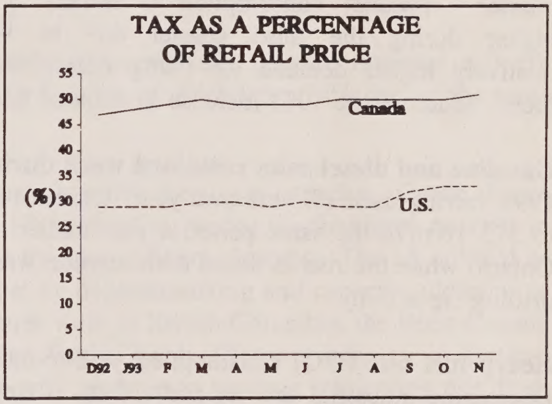
Canada Versus the U.S.

Over the 12-month period ending November 1993, the average retail price of gasoline (all grades) experienced a greater decline in Canada than in the U.S.. In Canada, the price ranged from a high of 56.4 ¢/l in January to 53.9 ¢/l in November, the lowest average price recorded since March 1989. In Canadian currency, the highest U.S. average retail price was about 42 ¢/l in October, while the lowest was 38 ¢/l in March.

The differential between the average prices in Canada and the U.S. was reduced from 16.1 ¢/l in November 1992 to 12.9 ¢/l in November 1993. Much of this narrowing was attributable to the weakened Canadian dollar, as the exchange rate rose from 1.2680 to 1.3177. The exchange rate accounted for about 50% of the 3.2 ¢/l decline in the differential between the two countries. Had the exchange rate not changed over a 12-month period, the retail price in the U.S. in November 1993 would have been lower by 1.6 Can ¢/l.

In both countries average consumption taxes remained fairly stable, with some increases in the last quarter of the period. **As Figure 5 highlights, taxes in Canada account for 50% of the retail price, while in the U.S. about 30% of the retail price is attributed to tax.** The tax component of the retail price increased in both countries during the year. In Canada, this was in large part due to declining retail prices. Additional federal taxes levied in October 1993 contributed to the increase in the U.S..

Figure 5



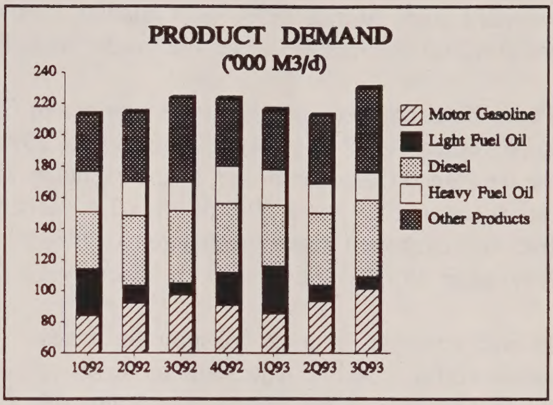
While the retail prices and taxes in the U.S. remained lower than those in Canada, gasoline prices in Canada are generally lower than in most other International Energy Agency (IEA) member countries.

II PRODUCT MARKET

Product Demand

Petroleum product sales grew marginally in 1993 reflecting a modest improvement in the economy and generally lower refined product prices.

Figure 6



Demand for refined products increased 1%, to 658 10^3m^3 for the January to September 1993, period compared to the same period last year. Product consumption, however, was not consistently higher than in 1992 throughout the nine-month period, when the first three quarters of 1993 were compared with the corresponding periods in 1992. The first quarter of 1993, recorded an increase of 1.3% while there was a decrease in demand during the second. This was followed by a 3% product consumption increase in the third quarter. Product consumption is usually higher during the third quarter due to relatively higher demand for transportation fuels. Much of the 1993 increase in demand is attributed to higher sales in central Canada.

Gasoline and diesel sales remained weak during the nine-month period ending September 1993, having risen 1% year over year. Gasoline sales were 280 $10^3m^3/d$ for the period compared to 273 $10^3m^3/d$ the same period a year earlier. The increase in gasoline sales was largely in Ontario while the rise in diesel consumption was mainly in the Prairies as a result of increased drilling rig activity.

Heavy fuel oil (HFO) consumption year-to-date was 59 $10^3m^3/d$, 9.8% lower than in 1992. Decreasing industrial activity and a drop in electrical power generation in the Atlantic region contributed to the weak HFO demand. On the other hand, year-over-year demand for light fuel oil picked up both during the first and third quarters of 1993 with a slight drop during the second quarter.

Retail Outlets and Market Shares

The rationalization of the retail gasoline market continued in 1993. A survey conducted by *Octane* in September indicated a reduction of 1100, or about 6% of the retail gasoline stations across Canada since September 1992. In the past two years there has been increased publicity about the rationalization schemes of the major refiner-marketers, Imperial Oil, Petro-Canada and Shell. Their programs are aimed at reducing costs of operation through refinery and retail outlet closures and staff reductions. These companies closed 11% of their outlets between 1992 and

1993. The regional refiner-marketers, Chevron, Irving, Sunoco, Ultramar, Co-op and Husky, are also rationalizing their networks and closed about 6% of their stations. In contrast to the major and regional refiner-marketers, the independent retailers increased the number of their retail outlets by 3.4% and now operate almost 20% of all gasoline stations in Canada.

Increased gasoline demand, coupled with a reduction in the number of retail gasoline outlets, resulted in higher average throughputs at gasoline stations. The majors posted the best gains in terms of daily throughput per service station, reflecting the results of their rationalization program. **Overall, the average daily throughput per station in Canada rose to 4.7 thousand litres per day for the period January to September in 1993, from 4.3 thousand litres per day during the same period in 1992.** Even though this is an improvement, the average daily volumes per service station in the U.S. are still much higher, more than twice that of an average Canadian outlet.

Market share shifted from 1992 to 1993, showing gains for the independents, at the expense of the majors. The major retailers' market share was reduced from 54% in 1992, to 52% in 1993. Independents had 19% of the market share in 1993, while the share of the regional retailers remained unchanged at 29%.

Refinery Capacity

Refinery capacity utilization improved considerably over last year. Average refinery utilization rate rose to 84% during the first three quarters of 1993 from 78% during the same period in 1992.

Effecting this change were a higher crude charge and a lower refinery capacity. Crude charge during the nine-month period was 249 $10^3m^3/d$, 3% higher than during the first three quarters in 1992. Capacity reductions in 1993 were caused by three refinery closures. The 16 $10^3m^3/d$ of eliminated capacity was, however, partially offset by debottlenecking and capacity additions to a few existing refineries. Two of the three closures were in British Columbia, the Petro-Canada Port Moody and Shell Burnaby refineries. The Petro-Canada Clarkson refinery in Ontario contributed to 6 $10^3m^3/d$ of lost capacity but it will continue to produce lubricating oils from intermediate feedstocks. At the end of the third quarter of 1993, Canadian refining capacity was 298 $10^3m^3/d$, 4% lower than at the same time last year.

	JAN. - SEPT. 1992	JAN. - SEPT. 1993	CHANGE
Charge $10^3m^3/d$	242	249	+3%
Capacity $10^3m^3/d$	310	298	-4%
Utilization Rate = Charge/Capacity	78	84	+8%

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Canada

THE ENERGY OF OUR RESOURCES

THE POWER OF OUR IDEAS

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1992
THE YEAR IN REVIEW

Introduction

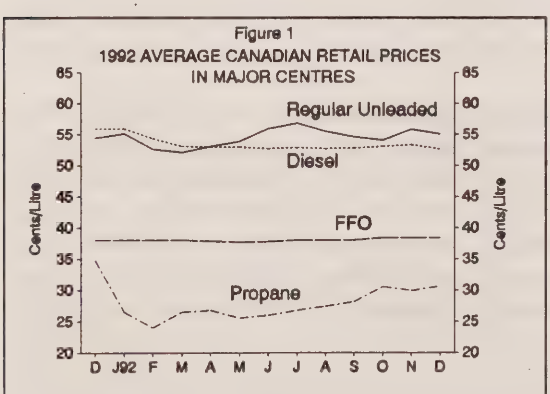
Canadian petroleum product markets were relatively stable in 1992, compared to the price fluctuations experienced in 1991 during and after the Persian Gulf crisis. After suffering significant losses again in 1991, many refiner/marketers intensified their efforts to rationalize their downstream operations and improve profitability. As a result of the continuing recession, growth in product demand remained weak. On average, prices were stable.

This report summarizes price trends during 1992 for motor gasoline, diesel oil, furnace fuel oil, and automotive propane. It also examines changes in the components of pump prices, such as crude costs and taxes, and comments on the widening price differentials among the grades of gasoline. Canadian gasoline prices are compared to those in the United States as well as to gasoline prices in other industrialized countries. The report also highlights some of the structural changes that the downstream petroleum industry has gone through recently and looks at the impact of these on market shares.

A statistical summary for 1992 is also appended. This appendix includes the 1992 time-series for the data which appear regularly in the monthly *Petroleum Product Market Report*.

Price Trends

Prices in 1992 were relatively stable, unlike the previous year when the Persian Gulf war had raised prices to their highest levels in years. Prices of regular unleaded gasoline were the lowest since 1989, whereas diesel and furnace fuel oil prices remained higher than their pre-Gulf war levels. On an ex-tax basis, however, average annual prices of regular unleaded gasoline and diesel were lower than they had been in the last five years.



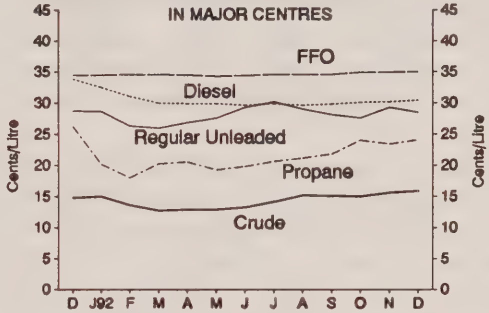
Regular unleaded gasoline prices were generally lower than the post-war prices of 1991, in spite of a slight upturn in gasoline demand. Prices attained their lowest level in the first half of the year but firmed up during the summer season, when gasoline demand traditionally peaks. Over the 12-month period the Canadian monthly average price varied from a low of 52.1 ¢/l in March to a high of 56.8 ¢/l in July.

The most notable trend was the price decline in Atlantic Canada during the second half of the year, particularly in the Halifax market which was deregulated in July 1991. A steady

decline in prices, resulting from increased competition and a decrease in the provincial road tax, brought the end-December price to a low of 52.9 ¢/l. This 7 ¢/l drop from January 1992 brings the Halifax price to the lowest recorded since 1989. Charlottetown, the only Canadian centre with a regulated market, experienced slight price drops.

This downward trend was not evident in western Canada, where prices are consistently below the Canadian average. Although price wars were common, several centres closed the year with higher prices than in December 1991. During specific price wars in Regina and Vancouver, prices tumbled to 39.9 ¢/l, the lowest price recorded in our 1992 survey. However, Calgary residents enjoyed the lowest average December price of the Canadian cities surveyed, 46.4 ¢/l.

Figure 2
1992 AVERAGE CANADIAN RETAIL EX-TAX PRICES IN MAJOR CENTRES



Two centres, Yellowknife and Whitehorse, were added to our survey during 1992. Prices in Yellowknife increased throughout the year, unlike Whitehorse, where prices dropped over the last seven months.

Diesel prices, which had not declined as quickly as gasoline prices following the Gulf war, began the year higher than those for regular unleaded gasoline. A marginal decline in demand dampened prices to around the 53 ¢/l mark, which was significantly lower than the post-war prices of 1991, but still higher than the 51 ¢/l average for the pre-war period of 1990. Of interest is Vancouver which experienced no price changes during the year. The largest average December 1991 to December 1992 decrease was registered in Montréal (-4.6 ¢/l). As with regular unleaded gasoline, Calgary had the lowest diesel prices among the major centres, with a yearly average of 41.6 ¢/l.

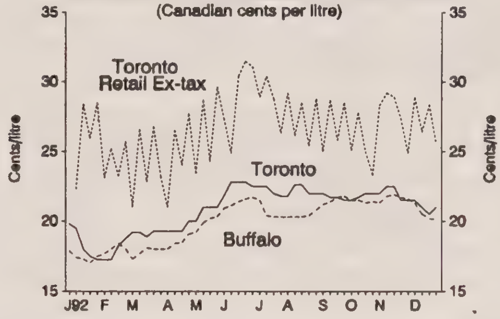
Furnace fuel oil prices barely moved and remained close to 38 ¢/l. This, however, was higher than the pre-war prices of 1990.

Early in the year, warmer than normal temperatures in western Canada resulted in high inventory levels for propane, sparking some fierce price wars for automotive propane. In Winnipeg the price fell to a low of 15.7 ¢/l. However, by mid-year, western markets had stabilized and prices were only marginally lower at the end of 1992 than they had been in December 1991. Although prices in eastern Canada are traditionally higher than the rest of the country, the Atlantic region saw its prices drop more significantly, over the year, a trend that was also evident with gasoline. The drop in eastern Canadian prices resulted in a net decline in the Canadian average of about 6 ¢/l by year-end, when compared to December 1991.

Starting with the April issue of the *Petroleum Product Market Report*, a section on wholesale gasoline prices was added to compare prices at bordering Canadian and American centres.

Canadian and American wholesale prices generally followed the same trend and all experienced seasonal changes. Although the Canadian prices were generally higher, prices in the American centres surpassed their Canadian counterparts at least once during the year. The price differentials between the Canadian and American wholesale prices varied from centre to centre. During the 12-month period, Vancouver vs Seattle prices recorded the largest differential at 9.4 ¢/l. Montréal vs New York registered 3.8 ¢/l and Toronto vs Buffalo, 2.3 ¢/l. In all three cases the Canadian prices were higher.

Figure 3
COMPARISON OF WHOLESALE VS RETAIL PRICES
(Canadian cents per litre)



A good example of how retail prices are influenced by market forces and wholesale prices is evident in Figure 3. Toronto was chosen for this comparison because of its influence on the average Canadian price and because of its intense competition with Buffalo. In order to remove any effect of tax increases, the ex-tax price was used.

Cost Components

Readers are reminded of the theoretical nature of this analysis, which is provided for illustrative purposes. Individual company positions may exhibit considerable variation from averages used in this report. Local market conditions, particularly variations in stock levels between companies, can also have a significant impact on the rapidity of price changes and the composition of pump prices.

A breakdown of the various components making up the average pump price of regular unleaded gasoline indicates that increases in average crude costs and provincial taxes were partially offset by reductions in industry margins during the year.

The average Canadian crude cost decreased from January to May and then gradually increased over the second half of the year. By December, the average crude cost was 1.1 ¢/l higher than it had been in December 1991 and accounted for 29% of the average retail price.

The federal tax components, the Goods and Services Tax (GST) and the excise tax, remained unchanged in 1992. Price fluctuations over the year resulted in minor changes in the GST, which is based on 7% of the retail price, but the federal tax component on regular unleaded gasoline ended the year at 11.9 ¢/l, unchanged from December 1991. The average provincial tax increased by 0.8 ¢/l in January and then remained relatively stable throughout the rest of the year. By December, the combined federal and provincial tax components accounted for 48% of the pump price, up from 47% last year.

The residual component, refining and marketing costs and profits, fluctuated from a high of 14.2 ¢/l in June to a low of 8.9 ¢/l in December, down 1.6 ¢/l from December 1991. Retail margins were relatively stable over the year ranging from 3.4 to 3.7 ¢/l.

Consumption Taxes On Petroleum Products

On average in 1992 petroleum product consumption taxes did not change significantly. The Federal Excise Tax remained unchanged during the year at 8.5 ¢/l for gasoline and 4.0 ¢/l for diesel. While the GST on regular unleaded gasoline was unchanged at 3.4 ¢/l from December 1991 to December 1992, there were increases on the other grades of gasoline. GST increases on the middle and premium grades were 0.1 ¢/l and 0.2 ¢/l, respectively, to 3.7 ¢/l and 4.0 ¢/l. The average provincial tax on regular unleaded gasoline increased by 0.9 ¢/l.

On August 17th, the Newfoundland government announced a decrease in propane taxes of 6.7 ¢/l in order to support a federal/provincial/industry pilot project to create a market for automotive propane. Also in Newfoundland, an increase of 2.0 ¢/l in the gasoline and diesel taxes was announced on December 4th. Newfoundland now has the highest diesel tax in Canada and the gasoline tax is second only to Quebec's rate.

In the last six months of 1992 the trucking industry in Quebec had lobbied for a full refund on the diesel tax. The Quebec government announced a reduction of 1.9 ¢/l on diesel effective November 25th. When the impact of the GST (7%) and the Quebec Sales Tax (8%) are factored in, the diesel tax was effectively reduced by 2.2 ¢/l.

Price Differentials

Between December 1991 and December 1992, gasoline price differentials continued to increase across Canada as the prices for premium and middle gasolines (up 3%) increased more than the price of regular unleaded (up 1%). As environmental standards are tightened, refinery processes will become increasingly sophisticated and costly. Widening differentials is one method of recovering some of the money required to fund the changes.

Competition also contributes to the differences in price changes between regular unleaded and the higher grades of gasoline. Regular unleaded gasoline accounts for almost 70% of the total gasoline sold in the 10 centres included in our Canadian average. Often the regular unleaded gasoline price is the only price posted making it easy for consumers to comparison shop. Also competition is usually stronger for products with higher sales.

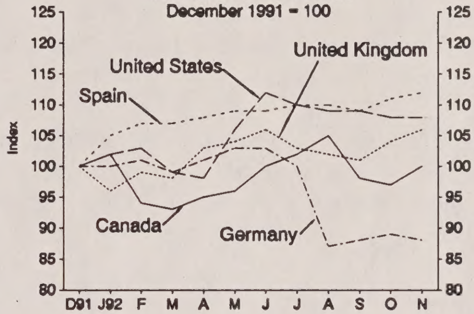
In all centres across Canada the price differential between regular and mid-grade gasoline increased. The regulated Charlottetown market had the lowest differential, 1.3 ¢/l. In the other centres, the differential increased by as much as 1.5 ¢/l from December 1991 to December 1992 and ranged from 2.9 ¢/l in Saint John to 4.5 ¢/l in Montréal by year-end. The spread between premium and regular grades increased in all centres except Charlottetown and Halifax and ranged from 2.4 ¢/l in Charlottetown to 8 ¢/l in Montréal and Toronto.

Canada vs Other Countries

The average U.S. retail price of motor gasoline increased by 5.4 Canadian ¢/l between November 1991 and November 1992, while the Canadian average rose by 0.2 ¢/l. However, the greatest part of the increase in the U.S. price, 4.5 ¢/l, can be attributed to the weakening Canadian dollar.

The price differential fell 5.2 ¢/l to 16.1 ¢/l, the second lowest differential in more than three years. Higher consumption taxes in Canada continue to account for most of the difference, 90% in November 1992.

Figure 4
GASOLINE PRICE INDICES
December 1991 = 100



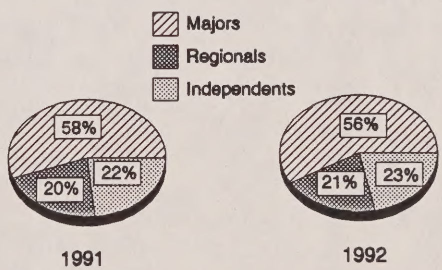
While gasoline is more expensive in Canada than in the United States, it is generally less expensive than gasoline in other industrialized countries. Canadian gasoline prices were less than half the price of gasoline in most of the International Energy Agency (IEA) member countries throughout 1992. Higher prices in other IEA countries are generally the result of high consumption taxes on gasoline. In some countries the tax accounts for more than 75% of the retail price.

Gasoline prices were fairly stable in most countries during 1992 with changes averaging less than 5%. Exceptions to this trend were observed in Germany where prices fell about 12% and in Spain where prices increased almost 13%.

Structural Changes

Structural changes in the downstream petroleum industry during 1992 were mostly driven by rationalization and restructuring in the marketplace. The number of retail outlets declined to 17,815 from 18,792, a 5% drop over 1991. In their attempts to reduce the cost per unit of product sold, some marketers closed their less efficient stations to increase the volume sold per outlet. Retail outlet reductions occurred in all regions in Canada with the exception of Alberta and British Columbia. The Prairie region recorded a 4% decrease, since there was a reduction in outlets of 9.5% in Saskatchewan and 9.9% in Manitoba. Significant decreases in the number of outlets were also recorded in Ontario (8%) and Quebec (6%).

Figure 5
MARKET SHARE



Source: Kent Marketing

Major integrated companies, with higher overhead costs than those of the regional and independent marketers, were the most aggressive in their rationalization programs. They were not, however, always able to hold on to their market share in the process. At the end of the third quarter 1992, majors accounted for 56% of the gasoline sales in the 13 major centres across Canada, a drop of 2% from the same period in 1991. Regional and independent marketers each gained 1%, holding 21% and 23% of the market, respectively, at the end of the third quarter 1992. Independents, who have a stronger position in the Prairies, made larger gains there than in other parts of the country. Similarly, the regional refiners with a stronghold in the Atlantic provinces increased their market share more significantly there than in other regions. Charlottetown was a notable exception where, in the absence of an independent sector, the majors gained strength at the expense of the regional marketers.

In Nova Scotia, self-serve outlets increased gradually over the year. Prior to July 1991, self-serve outlets were prohibited under the Gasoline and Fuel Oil Licensing Act. The gap between full-serve and self-serve prices widened towards the end of the year, to 1.8 ¢/l from 1.4 ¢/l in March 1992.

Refinery Capacity

Refinery capacity fell 1.5% in 1992 to about 308 $10^3m^3/d$, down from 312 $10^3m^3/d$ in 1991. The loss is attributable to the closure of Calgary's Turbo refinery in May 1992. Lower demand and high inventories slowed down refining activity over the year. Refinery turnaround and shutdown periods were, therefore, unusually high in 1992 with the refiners taking the opportunity to carry out more extensive maintenance on processing units. Total crude charge dropped to 240 $10^3m^3/d$ in 1992 down from 260 $10^3m^3/d$ in 1991. The utilization rate was, therefore, lowered to 78%, from 83% in 1991, despite the reduced capacity.

Product Demand

For the period January to October 1992, the demand for total refined products in Canada increased less than 1% to 218 $10^3m^3/d$, year-over-year, reflecting the weak upturn of the economy. Net year-to-date sales of motor gasoline increased 1% to 91 $10^3m^3/d$, diesel fuel fell marginally to 44 $10^3m^3/d$ and light fuel oil increased 3% to 15 $10^3m^3/d$. As for heavy fuel oil, in spite of declining sales during the second and third quarters, significant year-over-year increases in the first quarter resulted in a net 1992 increase of 2.7% to 22 $10^3m^3/d$. This increase, attributable to a recovery in both Ontario and the Atlantic region, was partially offset by a 9% drop in heavy fuel sales in Quebec.

Figure 6
PRODUCT DEMAND - NET SALES
('000 m3/d)